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INFO RUEHGZ/CHINA POSTS COLLECTIVE 0129
RUEHBJ/AMEMBASSY BEIJING 0237
RUEHCN/AMCONSUL CHENGDU 0072
RUEHHK/AMCONSUL HONG KONG 0098
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E.O. 12958: N/A
TAGS: ELTN ELAB PGOV SOCI ECON CH
SUBJECT: Labor Unrest in South China? - Unlikely...For Now

REF: A) GUANGZHOU 131; B) GUANGZHOU 57; C) GUANGZHOU 54; D)
GUANGZHOU 47; E) GUANGZHOU 42; F) BEIJING 448; G) BEIJING 484

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accordingly.

¶1. (SBU) Summary: Increasing unemployment and isolated labor disturbances will not likely translate into broader social instability in the near future, according to South China business and academic contacts. Local governments have taken steps to help returning migrant workers find jobs and have extracted promises of no new layoffs from major local employers. At the same time, many factories have encouraged workers to stay home for "extended unpaid holidays" until orders pick up. Although academic contacts warned that unemployed college graduates could be a particularly volatile segment, it appears that for the time being at least, workers from all segments have individually and collectively reached the conclusion that they have nothing to gain from radical action that could threaten social stability. End summary.

Near Term Labor Unrest?

¶2. (SBU) "We don't think so" was the answer when academic and business contacts were asked about the threat of labor unrest in a series of recent meetings with econoffs. Reasons varied, but the conclusion was the same: increasing South China unemployment and isolated incidents of social unrest will not likely translate into broad social instability in the near future. Professor Ou Jiangbo, Vice Director of the Statistics Research Center at Guangzhou Academy of Social Sciences (GASS), put the recent rise in unemployment in its historical context. He claimed that although the recently reported figure of 20 million unemployed migrant workers was high, it might not represent a historically significant increase within the context of China's long-term employment trends for the country's rural population. Ou argued that the periodic increase of "a few million more" unemployed people had happened more than once in China's modern history and the current uptick was not really cause for alarm in the short term. Ou went on to say that the current increase would likely accelerate a long-term urbanization trend from rural areas to second- and third-tier cities that are expanding in areas closest to workers' rural homes.

¶3. (SBU) Business leaders from Dongguan, an export-reliant industrial city that has been hit hard by the downturn, agreed that social stability is not currently at risk from major unrest. One factory owner, a member of the Dongguan Association of

Foreign-Invested Enterprises (FIE), described conditions in Dongguan's Tangxia District as unusually calm. He explained that the area had previously hosted approximately 700,000 migrant workers, but the number had declined by almost half to 350,000-400,000 because many had gone home and not returned. Anyone driving or walking the streets of Tangxia can see that its establishments are very quiet now, he said. Economic activity has dropped substantially from what it was a year ago, according to the factory owner, and the decline seems to have affected small shops and restaurants most dramatically. Another factory owner, also a Dongguan Association of FIEs member, said the Tangxia police had seen an increase in petty crime in recent months but had told him that public order was not in jeopardy. He commented that the police seemed very confident in their ability to prevent social unrest. Guangdong Development Bank (GDB) President Michael Zink, based in Guangzhou, echoed these comments, emphasizing that local law enforcement and political leaders had not even begun to use all of the tools available for preventing widespread unrest and that authorities would be effective in maintaining the status quo for a long time.

But Why Haven't the Workers Returned?

¶4. (SBU) Zhongshan University Economics Professor Lu Jun asserted that many rural families have sufficient savings to support returned migrant relatives for several months at least, and unemployed workers might be happy to have a break from their factory jobs until economic conditions improve. Factory owners from the Dongguan Association of FIEs also claimed that many factories had agreed to pay migrant worker employees a small RMB 10/day allowance (US\$ 1.50)

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to stay in their home villages and wait for manufacturing orders to recover (the contacts called this a food/subsistence allowance). The businessmen claimed that the allowance was effective at encouraging unskilled workers to willingly remain at home in rural areas on an "extended unpaid holiday." They said different factories took different approaches, but some had paid half of the subsistence fees in advance before Chinese New Year, and would pay the remaining portion when migrant workers return in April according to the agreed plan.

What is Government Doing to Help?

¶5. Professor Peng Peng, also of Guangzhou Academy of Social Sciences, told econoffs that government assistance for unemployed migrant workers had taken many forms in recent months and would continue to evolve along with the economic crisis. Peng said local governments had sponsored free job fairs and expanded employment information networks for workers in both urban and rural areas. He also said many entrepreneurs were using the current crisis to expand and hire new employees, especially in the service sector as economic conditions create new business opportunities. However, Peng cautioned that recent college graduates could form a particularly volatile segment of the unemployed population, causing government authorities and education leaders to focus on managing the continuous flow of new college graduates into the depressed labor market (ref F).

¶6. (SBU) Zhongshan's Professor Lu said local government leaders across South China had also engaged in a vigorous campaign to meet with major employers in their communities and extract promises of no new or unexpected layoffs in coming months (ref G). Lu said business leaders cooperate with these types of requests from political leaders both because they see it as their firms' "contribution to social stability" and because cooperation on this point can lead to other government-conferred benefits, either now or in the future.

What Happens When Workers Do Return?

¶7. (SBU) Dongguan Association of FIE leaders said they didn't really know what would happen when/if large numbers of the unemployed

workers return to Dongguan later this spring or early summer, but pointed out that some factories were considering alternative work schedules aimed at keeping their best-skilled workers. Factory owners said many firms would likely offer workers "1/2 or 3/4 jobs" when they return; employees would work 3 full days per week, several half days, or some other combination that would eliminate overtime and retain as many of the best skilled/trained workers as possible. The owners still seem to be wishing for a recovery of orders by the time workers return from their "extended holiday," but they confessed that the chances of such a quick and soft landing seemed dim. In the conversation with econoffs, the factory owners repeatedly returned to the skilled worker problem - wondering aloud how to avoid releasing, scaring away or otherwise losing their most skilled and trained employees but also hoping to avoid paying salary levels that the workers had come to expect in early-to-mid 2008.

Comment

¶8. (SBU) Although academic and business contacts expressed confidence in the government's efforts to maintain social stability, their analysis is based on conditions that could quickly change. Consulate officers have also observed the relative calm in migrant worker communities and surmise that for the time being at least, workers have individually and collectively reached the conclusion that they have nothing to gain from radical action. Concerns of unrest might increase, however, if economic conditions deteriorate to the extent that employers are no longer able to keep their continued-employment promises or rural families see their savings decline so much that they are unable to support returned workers.

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